

A Regional Consensus Transmission Proposal

Background and Overview

The RTO West Regional Representatives Group (RRG) recently expressed its unanimous support for a high-level framework (the “Regional Proposal”) based on the creation of a new independent transmission organization for the region. The Regional Proposal was developed to meet the specific needs of this region, as identified through the RRG process since mid-2003. Further work on the Regional Proposal will proceed with the recognition that regional parties’ ultimate decisions about whether to support implementation will depend on the success of the development process.

The RTO West filing utilities, state and provincial energy officials, and many other regional parties as well, recognize that the current system of managing and operating the regional transmission grid and related wholesale markets has not addressed many problems and opportunities that are facing the region, for a number of reasons. With the encouragement of the states and provinces, the RTO West filing utilities—BPA, PacifiCorp, Idaho Power Company, Portland General Electric, Northwestern Energy, Avista, Puget Sound Energy, Sierra Pacific/Nevada Power and British Columbia Transmission Corporation—have worked with other parties in the region through the RTO West RRG process to create a broadly supported framework for developing better approaches to transmission system management, planning and operations. This process of developing the Regional Proposal has been successful because: 1) it was driven by regional concerns, rather than responding to federal mandates, 2) it provided a forum for a cross-section of the region’s transmission stakeholders to seek consensus on the nature of the problems and opportunities and the possible solutions to them, and 3) states and provinces actively participated in it.

The recent RRG process has led to two significant developments. The first is broad consensus on the transmission problems and opportunities the region needs to address. The second is the Regional Proposal. The Regional Proposal contemplates a regional transmission organization (Independent Entity) that is independent of market interests and has broad regional support. The Independent Entity’s mission will be to improve planning and use of the region’s transmission system and related wholesale markets and to be responsive and accountable to the region.

The Regional Proposal builds on earlier work that was done on RTO West, but is different in three significant areas:

- It proposes a phased, incremental approach with a beginning point designed to improve the operation, use and management of the grid from where the region is today. The Independent Entity’s mission will be to build on regional experience and circumstances as its authority and responsibilities evolve, subject to regional review, toward efficiently managing the region’s electricity grid, including through financial methods (subject to reliability constraints);

- It provides for voluntary consolidation of transmission system operations into a single operator under the Independent Entity¹ (and contemplates early consolidation of several major control areas); and
- It has mandatory consultation provisions and, with respect to issues that have been identified as of particular concern, a set of regional checks and balances. These features are intended to make the Independent Entity more accountable to the region, even though the Independent Entity's board will have final decision-making authority (subject to applicable regulatory authority) in all aspects of its operations.

In many respects (such as planning and expansion, market monitoring, and moving toward system management with financial methods), the Regional Proposal builds on earlier regional work reflected in the RTO West Stage 2 proposal.

This approach seeks a comprehensive and integrated solution to the region's identified and agreed-upon transmission problems while providing assurance to stakeholders that big changes will not be made without regard to problems and issues that may arise. It is intended that, as fully developed, the Regional Proposal will benefit the region by:

- improving transmission grid efficiency;
- improving the region's ability to build only the infrastructure that is necessary and do it in the least-cost way; and
- enhancing that ability of the region to secure the lowest cost energy supplies for its consumers.

The next phase of this regional process, as well as some of the important considerations and objectives that will guide further work, are outlined in the final section of this paper.

The Regional Proposal Is Flexible and Focused on Regional Needs

The cornerstone of the Regional Proposal is the creation of the Independent Entity responsible for managing the region's electricity grid. The Regional Proposal builds from the premise that many of the region's transmission problems and opportunities can best be addressed by an organization that is independent and can make decisions free from the market interests of any particular transmission user and that can take a "big picture" look at the integrated transmission

¹ The manner in which an independent transmission operator based in Canada would participate in early, voluntary control area consolidation is expected to follow the approach developed for the Stage 2 RTO West Transmission Operating Agreement. This approach contemplates agreements that would enable the Independent Entity and the Canadian independent operator to operate transmission facilities under their respective control as a single NERC-certified control area. (These agreements could preserve, if desired, the ability of the Independent Entity or the Canadian independent operator to resume independent operation of its transmission facilities under emergency conditions.) The guiding principles are to (1) achieve the benefits of a single control area operation, (2) maintain consistency with orders of applicable regulatory authorities in the United States and Canada, and (3) provide a market structure with seamless, non-discriminatory open access transmission services across the facilities of the Independent Entity and the Canadian independent operator.

system. Independence as contemplated by the Regional Proposal means independence from market interests, not lack of regional accountability or undermining applicable regulatory authority.

The Regional Proposal envisions a staged approach that allows the Independent Entity and its functions to evolve toward a proposed target state, rather than making all of the changes at the outset. The goal is to enable the Independent Entity to determine when and how to make further changes based on workability, experience, testing, and regional needs.

- The beginning phase calls for changes that are intended to be significant improvements over current practices. Its objective is to respond specifically to many of the important regional transmission problems and opportunities identified and agreed-upon in this process.
- The Regional Proposal contemplates that each new phase in the evolution of the Independent Entity should be workable in and of itself and should address remaining transmission problems that were not solved in the earlier phases, but without creating significant new problems by moving forward.
- The Regional Proposal is intended to create a path to an advanced target state where the region efficiently manages its transmission system by using financial methods subject to reliability constraints. Each phase along the path will evolve based on experience and circumstances at the time the changes are to be made, subject to a clear set of checks and balances to assure that the region has input about whether changes serve the region's interests.
- The Regional Proposal allows for an early voluntary consolidation of utility control areas (key centers for transmission system operations) into a single control area operated by the Independent Entity.² This approach is intended to provide each transmission owner the flexibility to make its own decision on consolidating its control area based on its needs and the experience of other consolidated control areas, rather than mandating consolidation as a prerequisite for joining the Independent Entity.

The Regional Proposal calls for a governance structure for the Independent Entity that is accountable to the region. It provides a set of checks and balances to help assure the region that it will have meaningful opportunities for consultation and input into changes in the Independent Entity or its functions. The governance provisions will require a stakeholder vote on certain key

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changes to the Independent Entity's scope (although final decisions remain with the Independent Entity). Some of the Regional Proposal's key governance features are:

- Mandatory consultation with state and provincial officials and regulators (as well as tribes with applicable regulatory authority);
- Mandatory consultation with regional stakeholders, including appropriate advance notice regarding key proposals;
- A vote of the 30-member Trustee Selection Committee (six representatives of each of five classes of members, including: major transmission owners, transmission dependent utilities, marketers and generators, end-use consumers, and state, provincial, tribal and public interest organizations) before specified changes are made to the scope of the Independent Entity's authority (referred to as the "Special Issues List");
- A requirement for a higher level of Board approval, (from five to seven of the nine member board) if the Trustee Selection Committee votes contrary to the Board's proposal on a matter identified in the Special Issues List.

The Regional Proposal calls for regional safeguards to prevent abuses by market participants using the transmission system and to avert California-type problems from occurring in the region. It contemplates that a central element of these safeguards would be an independent market monitor charged with investigating potential abuses.

Three fundamental principles have guided work on the Regional Proposal:

- All existing contracts, settlements and other relevant legal obligations are to be honored according to their terms.
- Transmission owners are still in charge of setting revenue requirements for their facilities, subject to applicable regulatory authority.
- Cost shifts should be minimized.

The Regional Proposal's Goal Is To Benefit the Region

The Regional Proposal envisions an Independent Entity with a big-picture view of the overall system. The Independent Entity's core mission will be to enhance reliability, manage congestion on the system at the lowest possible cost, create fair and open access to the transmission system, allow for changes in how transmission service is charged without significant cost shifting, and use information from grid users to identify needs on the system. Another goal is to enhance the region's ability to identify the best solutions to the region's transmission problems, including non-wire solutions and, once identified, provide a solid foundation for getting the region's needed, cost-effective infrastructure financed and constructed.

The Regional Proposal is intended to be a blueprint for developing comprehensive and integrated solutions to transmission problems in the region. The Regional Proposal charges the Independent Entity with improving the region's transmission system for all users by allowing them to understand the cost consequences of their decisions to use the grid, facilitating greater utilization of the region's existing grid, and better informing the region on needed grid improvements. Collectively these changes seek to enhance the region's ability to build only the infrastructure that is necessary and do it in the least-cost way. Most importantly, forming the Independent Entity has the central objective of facilitating and enhancing the ability of all the region's consumers to secure the lowest cost energy supplies available to them.

The Regional Proposal is intended to improve regional transmission grid operation, but to make changes only after the Independent Entity, in consultation with the region, has carefully reviewed and evaluated them. The Regional Proposal is intended to take advantage of existing commercially available computer systems that are "off the shelf" and can be readily adapted to the particular needs of the region. The fact that these systems now are commercially available should reduce these types of implementation costs.

Regional Development Process and Next Steps

The high-level framework set forth in the Regional Proposal is the result of an extensive six-month investigation of the region's transmission problems and solutions by a comprehensive cross-section of the region's transmission stakeholders. The Regional Proposal was developed through the RTO West Regional Representatives Group (RRG) stakeholder process to identify and discuss the region's transmission problems and opportunities. The RRG includes:

- Nine RTO West filing utilities, including BPA, PacifiCorp, Idaho Power Company, Portland General Electric, Northwestern Energy, Avista, Puget Sound Energy, Sierra Pacific/Nevada Power and British Columbia Transmission Corporation;
- State and provincial energy officials and regulators from Washington, Oregon, Utah, Idaho, Montana, Wyoming, Nevada, British Columbia and Alberta; the Northwest Power and Conservation Council;
- Representatives from public power in the Northwest and other parts of the region, including PNGC, PGP, WPAG, NRU, UAMPS, and Deseret G&T;
- Generators and power marketers;
- Renewable and environmental community representatives;
- Tribal representatives; and
- End use customers, including the DSIs, large industrial customers, and state consumer representatives.

The RRG met 12 times from June 2003 through December 2003. In addition, numerous, task-related working group meetings were held during this time frame.

The next phase of this regional process will be to more fully develop the key elements of the Regional Proposal with broad regional support. This work will proceed with the recognition that regional parties' ultimate decisions about whether to support implementation will depend on the success of the detailed development process. Work to expand on the Regional Proposal's framework must continue to be governed by the fundamental principles (described earlier in this paper) that guided its initial development, and will also support several further objectives, including:

- Submitting appropriate filings to state and provincial regulators and the Federal Energy Regulatory Commission;
- Initiating BPA's federal decision-making process; and
- Preparing to seat the board for the Independent Entity.

The RRG has indicated its willingness to work expeditiously on these efforts during 2004.